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AUTHOR Moffitt, Robert
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ABSTRACT

Existing research evidence on the ability of several kinds of public policy used to increase labor force attachment among the disadvantaged indicates that (1) policies for reform of the U.S. welfare system do not substantially help the problem; (2) increasing child support payments would have essentially no effects on the work effort and earnings of their recipients, who are predominantly female heads of households; (3) policies concerning work and training programs for the disadvantaged, including those requiring welfare recipients to work, are directed most toward disadvantaged women and do not benefit substantial numbers of disadvantaged men; (4) programs for the subsidization of wage rates and earnings that have been studied have not had the desired effect because employers have tended not to participate in them; and (5) if women's child care expenses were reduced 10 percent weekly due to government subsidization, the employment rate of married women should increase by about 3 to 4 percent, representing a large increase in the employment rate of women in the United States. The paper recommends the following: (1) place more emphasis on assistance to disadvantaged men; (2) expand and strengthen job training programs for males and focus additional Job Training Partnership Act resources on the most disadvantaged males; (3) strengthen the training opportunities in the Aid to Families with Dependent Children-Unemployed Parent program, which affects males and which will be mandated in all states by 1990 under the provisions of the Family Support Act of 1988; and (4) strengthen the training opportunities for men receiving benefits in the Food Stamp Program, the only universal transfer program in the United States. (32 references) (CML)

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22. LABOR FORCE PARTICIPATION AMONG THE ECONOMICALLY DISADVANTAGED

Robert Moffitt

Brown University

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22. LABOR FORCE PARTICIPATION AMONG THE ECONOMICALLY DISADVANTAGED

Robert Moffitt
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I. INTRODUCTION

Over the last few years there has been a resurgence of concern with the problems of the disadvantaged in the U.S. Much of the reason for this resurgence lies in the persistence of problems of low income, high unemployment rates, and high rates of welfare dependency among the disadvantaged. Much of the persistence of problems is also a result of the low growth rates of real wages in the U.S. labor market over the 1970s and early 1980s, but this is not the sole source of the problem. The problems facing the disadvantaged have, indeed, accelerated in their severity for reasons still not fully understood.

Several statistical trends form the basis for the evidence of growing problems among the disadvantaged. Chief among the pieces of evidence is that indicating an increase in the poverty rate starting in the late 1970s and continuing in the 1980s. The U.S. poverty rate fell from 1969 to 1979 from 12.1 percent to 11.7 percent, but rose by 1986 to a level higher than in 1969, of 13.6 percent. This increase has arisen not from a decline in transfer payments or from a decline in other sources of unearned income, but instead from a decreases in real earnings in the labor market among the least-skilled groups in the society. A second piece of evidence that supports this view is that which shows growing wage inequality in the U.S. labor force, at least

among men. Part of this increase in inequality has been the result of an increase in the relative number of high earners in the labor force, but the relative number of low earners has also grown. A third piece of evidence, more directly leading into the concerns of this review, relates to the labor force attachment of young, less-educated men. For such men the rates of labor participation have fallen over the 1970s and 1980s and the rates for non-participation have risen for both black and white men, but much more so for the former. Similar trends have occurred for older men and for more educated men, but the magnitudes involved are smaller than for less-educated youth.

This review is focused on the ability of public policy to increase labor force attachment among the disadvantaged. Specifically, a number of different types of policies that have been attempted in the past to increase that attachment are reviewed. The research evidence in support of each is surveyed and the findings of that research are summarized.

Several different types of public policies are reviewed. First, policies for reform of the U.S. welfare system, of which there have been many, are surveyed. Second, public policy on reform of the child-support system is reviewed, since such policy has a close connection to welfare reform and to the labor-force problems of the disadvantaged in general. Third, evidence on the effects of human-capital-inducing programs for the training of the disadvantaged, including those programs requiring welfare recipients to work, are discussed. Fourth, programs for the subsidization of wage rates and earnings are surveyed. Fifth, policies aimed at subsidization of child care for working families are reviewed and evaluated. On the basis of

the review of these policies, several policy recommendations are made in the final section of the review.

II. BACKGROUND

In this section the background literature on trends in poverty, earnings inequality, and labor force status of the unskilled population will be reviewed. Table 1 shows recent trends in the U.S. poverty rate. The overall poverty rate in the U.S. dropped enormously during the 1960s but much less so in the slow-growth 1970s. By the late 1970s the poverty rate had begun to rise again and, by 1986, it had reached a level (13.6 percent) exceeding even that it had had in 1969 (12.1 percent). These overall changes in poverty mask considerable differences by demographic group. For the elderly, for example, poverty rates continued to drop after the 1960s all the way up to 1986. Much of the favorable situation of the elderly is the result of gains in real Social Security benefits over the period. But for both adults as a whole and for children, poverty rates increased even from 1969 to 1979, and continued to do so in the 1980s.

Female-headed families, who constitute an increasing percent of the poverty population, experienced trends in poverty similar to those of the national average--falling considerably during the 1960s but rising in the 1980s. Similar trends occurred for other families. But unrelated individuals have had continuing drops in poverty, underscoring the location of poverty rate increases as occurring in families. In any

Table 1

Poverty Rates by Demographic Group (%)

	1959	1969	1979	1986
Total	22.4	12.1	11.7	13.6
Age				
Elderly	35.2	25.3	15.2	12.4
Adult	17.1	8.7	8.9	10.8
Children	27.3	14.0	16.4	20.5
Household Status				
Female-Headed Family	49.4	38.2	34.9	38.3
All Other Families	18.2	7.4	6.3	7.3
Unrelated Individuals	46.1	34.0	21.9	21.6
Race/Ethnicity				
White	18.1	9.5	9.0	11.0
Black	55.1	32.2	31.0	31.3
Spanish Origin	n.a.	n.a.	21.8	27.3

Source: Sawhill (1988).

n.a. = not available.

case, because the number of female heads has increased so drastically over the 1970s and 1980s, the poverty population is increasingly "feminized."

Important differences in poverty rate trends appear by race and ethnicity as well. Poverty rates for whites followed the same trend as the national average, but those for blacks did not. Black poverty rates fell tremendously during the 1960s, by a larger absolute amount than for any other group in the table (from 55 percent to 32 percent). However, while poverty rates for the black population have not risen subsequent to the 1960s as the overall rate has, they have not continued to fall as well. Instead, they have stagnated and remained more or less constant at around 31 to 32 percent. These rates are still, of course, extremely high compared to those of whites. For those of Spanish origin, we unfortunately have data only for the 1980s, where it appears that poverty rates for the group have risen. The levels of their rates are slightly below those of blacks.

Sawhill (1988), in a review of the causes of the recent upward trend in poverty rates, points out that they have resulted from a decrease in real forms of unearned income to the low-skilled population, especially real government transfer payments, accompanied by a reduction in real earnings in that group. Tables 2 and 3 demonstrate this by showing trends in the distribution of earnings in the U.S. from 1967 to 1986. Table 2 shows that the fraction of the male workforce with earnings less than 50 percent of the median has risen steadily. The fraction of the workforce in the middle range has fallen much more,

Table 2

Percent of Jobs by Annual Earnings Category:
Male Wage and Salary Workers

Year	Low	Middle	High
	Less than 50% of median	More than 50% and less than 150% of median	More than 150% of median
1967	24.9	53.5	21.6
1968	24.2	55.0	20.9
1969	24.5	55.2	20.3
1970	24.6	55.3	20.1
1971	25.2	52.8	22.0
1972	25.6	52.8	21.6
1973	25.3	52.6	22.1
1974	25.6	50.6	23.8
1975	25.8	49.4	24.8
1976	26.6	48.4	25.0
1977	26.5	47.7	25.8
1978	26.3	48.2	25.5
1979	25.9	47.0	27.1
1980	26.2	47.7	26.1
1981	26.4	45.6	28.0
1982	26.8	44.1	29.0
1983	27.7	43.0	29.2
1984	27.2	44.4	28.3
1985	27.1	43.8	29.1
1986	26.5	44.3	29.2

Source: Kosters and Ross (1988).

however, reflecting a very strong growth in the upper tail of the earnings distribution as well.

Why there has been an increase in the inequality of the earnings distribution, particularly that at the bottom end, is the subject of continuing research. It does not appear to be the result of changes in hours of work but rather of hourly wage rates; nor does it appear to reflect a change in the industrial structure of the economy as, for example, would be expected from the decline in the manufacturing sector (Blackburn and Bloom, 1987). One hypothesis suggested by some analysts is that the increase in the trade deficit has hurt low-skilled workers more than high-skilled (Murphy and Welch, 1988). Continuing research in this area is underway at the moment and may reveal some other causes of the trend. Interestingly, a similar growth of low-wage workers has not occurred among women in the U.S., as Table 3 shows. There has instead been a decline in the percent of the female workforce with low-earnings, accompanied by a rise in the middle-earnings workforce and essentially no change in the upper-earnings portion. The difference is no doubt connected to the difference in labor force growth patterns for men and women over the last twenty years, for there has been much more educational and occupational upgrading for women than for men.

Table 4 shows more directly the trends in the labor force status of unskilled groups, those of low age and education (the table shows rates of non-employment). The most serious difficulties have arisen among young black men. Among such men with less than a high school education, the fraction not working has risen from approximately 20 percent in 1940 to 26 percent in 1960, and to an enormous 50 percent in 1980. Even

Table 3

Percent of Jobs by Annual Earnings Category:
Female Wage and Salary Workers

Year	Low	Middle	High
	Less than 50% of median	More than 50% and less than 150% of median	More than 150% of median
1967	33.9	34.3	31.8
1968	34.0	33.4	32.6
1969	33.4	34.5	32.1
1970	32.7	34.2	33.1
1971	33.2	33.8	33.0
1972	32.5	33.9	33.6
1973	32.7	34.6	32.8
1974	31.7	36.1	32.3
1975	32.3	35.3	32.4
1976	31.7	36.0	32.3
1977	31.3	36.5	32.2
1978	30.6	38.6	30.8
1979	31.2	38.9	29.9
1980	30.2	40.4	29.5
1981	30.1	40.0	29.9
1982	31.0	39.5	29.5
1983	30.2	38.3	31.6
1984	30.2	38.5	31.3
1985	29.6	38.6	31.5
1986	30.5	38.4	31.2

Source: Kosters and Ross (1988).

Table 4

Percentage of Population Not Employed
or Enrolled in School, By Schooling Level

	1940	1950	1960	1970	1980
Ages 20-24: Black Men					
0-11 Years	19.8	18.9	25.9	34.7	50.2
12 Years	20.6	17.9	19.6	21.7	28.2
13-15 Years	14.5	9.6	9.3	10.8	13.3
16 or More Years	6.3	8.3	3.0	5.1	6.8
All Education Levels	19.5	18.0	22.2	24.5	29.7
Ages 20-24: White Men					
0-11 Years	20.8	13.8	17.9	20.9	28.8
12 Years	15.5	8.3	7.8	10.6	14.4
13-15 Years	10.4	4.6	4.4	5.2	5.1
16 or More Years	8.6	3.3	2.7	3.2	3.0
All Education Levels	17.6	9.9	9.9	9.7	12.3
Ages 35-44: Black Men					
0-11 Years	15.6	14.4	19.1	18.8	27.8
12 Years	19.7	15.5	13.2	11.7	18.8
13-15 Years	14.7	13.0	12.4	8.7	13.3
16 or More Years	5.3	6.0	4.4	2.9	7.7
All Education Levels	15.6	14.3	17.5	15.5	20.5
Ages 35-44: White Men					
0-11 Years	11.8	8.3	10.8	10.7	18.4
12 Years	7.5	4.7	4.2	4.5	7.5
13-15 Years	6.7	4.7	3.7	4.5	5.2
16 or More Years	3.9	3.2	2.1	2.3	2.6
All Education Levels	10.3	6.8	7.0	6.3	7.9

Source: Welch (forthcoming).

young black men with a high school degree have experienced increases in nonwork which have risen in the 1970s up to 28 percent by 1980. Some deterioration has even occurred for those in the young black male population with a college degree. Similar trends but much smaller in magnitude have occurred for young white men. While such men with a high school degree or less have experienced increasing rates of nonwork over the 1970s and 1980s, their rates of increase as well as absolute levels are considerably below those of young black men. In addition, young white men with at least some college or with a college degree have experienced no deterioration in the 1970s.

Among older black and white men, similar problems have arisen even though the levels of nonwork are, as should be expected, far below those of young men. However, some differences appear. For example, the nonwork rates of older black men fell during the 1960s at all education levels, unlike those of young men. It was not until the 1970s that their situations worsened. Also, it appears that among older white men, those with some college or a college degree experienced deteriorations in their labor market status over the 1970s, unlike young white men.

Table 5 shows more recent trends in labor force participation for black and white individuals since 1980. Participation rates of individuals with less than a high school degree have stabilized over the 1980s, probably as a result of the strong economic recovery during the period. However, while white high school graduates have improved their labor force participation, that of black high school graduates has continued to drop. Thus the problem has continued in the 1980s.

Table 5

Labor Force Participation Rates of Persons 25 to 44 Years of Age by Education and Race, 1980-1987

	Total	Less than 4 Years of High School	4 Years of High School Only	College	
				1 to 3 Years	4 Years or More
White					
1980	74.2	61.4	73.7	79.2	86.0
1981	74.9	62.1	74.2	79.8	86.6
1982	75.0	61.3	74.3	79.3	87.1
1983	75.1	60.9	74.1	79.4	86.9
1984	75.8	60.9	74.7	80.0	87.5
1985	76.6	60.7	75.8	81.1	87.7
1986	76.7	61.2	75.7	80.8	87.6
1987	77.5	61.6	76.6	81.6	88.2
Black					
1980	71.5	58.1	79.2	82.0	90.1
1981	72.0	58.7	79.1	81.1	89.2
1982	72.8	59.7	76.6	84.8	91.6
1983	73.2	58.4	78.1	84.5	91.6
1984	74.0	59.3	77.8	85.8	90.8
1985	73.4	57.0	77.2	85.6	89.9
1986	74.7	57.7	78.4	84.8	91.7
1987	74.7	58.8	77.6	84.5	90.4

Source: U.S. Department of Labor (1988, Table C-23).

The deterioration of the labor market situation of young men, especially young black men, ranks as one of the most serious problems, if not the most serious problem, in the unskilled labor market in the U.S. In research on the problem, there have been three major perspectives expressed on the causes of the deterioration. The first two are the polar economic views that ascribe the problem to supply-side factors, on the one hand, and demand-side factors, on the other. The supply-side view is best expressed by Welch (forthcoming), who has pointed out (as others have) a puzzle in the statistics, for they show an increase in the earnings of black males relative to white males over the 1970s and 1980s but, as just noted, a decrease in relative labor force participation. Thus, those black males with a job are improving relative to whites but fewer black males have earnings in the first place. Welch hypothesizes that the resolution to the puzzle is that the economic rewards to criminal and other illegal activities in low-income neighborhoods have increased even more than the potential labor market earnings for youth in those neighborhoods. However, Welch provides no direct evidence that this is the case.

The demand-side view is best expressed by Cain and Finnie (forthcoming), who argue that there has been a deterioration in the demand for the labor of low-skilled youth in urban areas. The evidence Cain and Finnie provide is based upon an examination of the correlation between unemployment rates of white and black youth in different metropolitan areas in the U.S. Cain and Finnie find that the unemployment rates for the two groups are indeed strongly positively correlated. Assuming that the unemployment rate of white youth is

relatively unaffected by discrimination and other cultural factors that affect black youth, this implies that a lower general demand for labor (i.e., a higher unemployment rate for white youth) has a major effect on black youth as well. Thus, the black-white difference cannot be solely due to cultural or other sociological differences.

The third view is that expressed by the sociologist William Julius Wilson (1987) on the development of an urban "underclass." For Wilson, the underclass exists in the urban ghetto, low-income neighborhoods plagued by high unemployment and welfare dependency and by other indicators of social ills--drugs, crime, other illegal activity, female-headness, and poverty. This particular definition of the underclass is to be distinguished from older definitions that had no spatial dimension, for example, those based upon persistence of low income or intergenerational transmission of poverty (Levy, 1977). The problem as identified by Wilson is multifaceted but focuses particularly on the problems created by the departure from urban inner city neighborhoods of middle-income blacks. The remaining population is more uniformly disadvantaged and hence poverty becomes more concentrated. It is Wilson's thesis that the concentration of poverty, per se, in urban inner city neighborhoods has an independent contributory effect on the problems of inner city individuals and families, one problem being the low levels of labor force attachment and earnings with which this review is concerned. The independent effect arises because such neighborhoods provide dysfunctional role models for youth and because community standards created by such ghettos create a culture not conducive to social improvement.

To date much of the research on the underclass has concerned itself with identifying its magnitude (see Sawhill, 1988, for a review). Unfortunately, different definitions have been used so the size of the underclass has ranged from less than 1 million to 10-11 million. However, it has been established that the underclass is not large in numbers regardless of definition. Only 7 per-cent of the poverty population lives in a low-income area, although it is also true that 70 percent of this population is black. Nevertheless, only 15 percent of the black poverty population lives in such areas. Still, despite its small size, all indications are that the fraction of the poverty population living in concentrated-low-income areas has been growing over time.

Regardless of the theory of the causes of the problems of disadvantaged youth, particularly black youth, what are the appropriate policy responses to the problem? Neither Welch nor Cain and Finnie directly address this issue, although presumably Welch would advocate increased activity against crime and other illegal activity and Cain and Finnie would advocate increased demand stimulation for disadvantaged youth. Wilson, on the other hand, devotes considerable attention to policy alternatives. He argues that anti-discrimination and Affirmative Action policies of the past are not adequate policy responses to the problems of urban underclass neighborhoods. Instead, he argues, such policies have assisted the black middle class to improve their situation and to leave inner city low-income neighborhoods altogether, leaving behind neighborhoods in which poverty is increasingly concentrated. On the other hand, Wilson does not advocate solely local,

neighborhood-level policy programs to alleviate the problem. Instead, he advocates universalist policies such as child support, job training, child-care subsidization, and other such policies.

These policies will be reviewed in the subsequent sections of this paper, where each policy will be assessed in light of its potential effectiveness in addressing the labor problems of the disadvantaged. The existing set of policies in place in the U.S. will also be reviewed. The major conclusion of the review will be that the existing set of policies for low-income individuals in the U.S. is overwhelmingly focused on the problems of women, and that policies to assist men are greatly underprovided.

III. EFFECTS OF PUBLIC POLICIES

A. Reform of the U.S. Welfare System

There has been an enormous amount of research on the U.S. welfare system and on ways in which it could be altered to better encourage work and earnings among the disadvantaged, while at the same time maintaining the income support that is the purpose of the system. One recently popular method is by the introduction of "workfare" or training programs for welfare recipients. Such programs will be discussed separately in the next section. Here attention will be restricted to more traditional reforms of the system that have been discussed over the 1960s and 1970s, namely, (1) changing the benefit-reduction rate on earnings, (2) extending benefits to cover the working poor, and (3) extending benefits to cover husband-wife families.

The U.S. welfare system for the poor and disadvantaged consists of several parts, but the core is that constituted by the Aid to Families with Dependent Children (AFDC) program, the Food Stamp program, and Medicaid. The major component of the AFDC program is that which offers monthly cash benefits to female heads of family with children under the age of 18 if their income and assets are below certain eligibility levels. However, about half of the states offer AFDC benefits to husband-wife families if the principal earner (usually the husband) is unemployed, has a history of significant labor force attachment similar to that required for eligibility in the unemployment insurance system, and if the family meets the same income and asset eligibility requirements as those for regular AFDC. Nevertheless, because the eligibility requirements are so severe, only about 7 percent of the AFDC caseload is composed of such "AFDC-UP" families. Consequently, the AFDC program remains overwhelmingly a program for female heads of family. This may change somewhat in the future, for the Family Support Act of 1988 mandates that all states must offer at least six months of AFDC-UP benefits each year by 1990.

The Medicaid program provides medical services to families in need of such care. However, aside from the elderly and the disabled, the major eligibility group for Medicaid is once again female heads of family. AFDC recipients are automatically eligible for Medicaid benefits but low-income families off AFDC rarely are. An exception arises in the 38 states that offer a "Medically Needy" program, under whose rules a female-headed family with a serious medical problem can become eligible for benefits provided they use up most of their existing

assets (i.e., "spend them down," in the program language) and become, effectively, poor. Consequently, few such families receive benefits relative to those in the AFDC caseload.

The Food Stamp program is the only universal program in the nation, for its eligibility requirements are based only upon low-income and asset status, not any family or demographic characteristic or marital status. The Food Stamp program today is an extremely large program, one whose caseload is double that of AFDC. As a result of its universal eligibility, almost 16 percent of its recipients are low-income husband-wife families. Nevertheless, the largest recipient group in the Food Stamp program is still that of female heads of family, who constitute almost 30 percent of the caseload. Part of the explanation for their predominance is their low level of income, but it is also the case that involvement with one form of the welfare system (AFDC) generally is highly positively related to involvement with other forms as well. In any case, however, although Food Stamp recipiency is widespread among both female heads and low-income husband-wife families, its benefits are approximately 50 percent lower than those of the AFDC program. Consequently, the Food Stamp program does not have as great an impact as its larger caseload would suggest.

It should also be noted in passing that neither of the major social insurance programs in the U.S., Unemployment Insurance and Social Security, provides significant assistance to the prime-age able-bodied poor, either female head or married men and women. Both provide benefits based upon prior earnings and labor force history, particularly

the unemployment insurance program, which rules out eligibility for the most disadvantaged segments of the labor force.

The overall distributions of transfer benefits among female headed and husband-wife couples are shown in Table 6. For female heads, more than half receive some form of transfer and over one-quarter receive AFDC, Medicaid, and Food Stamps together. However, for two-parent families, less than one-fifth receive any transfer at all. Of those who do, more than half receive some form of cash transfer or other transfer (usually unemployment insurance) rather than a low-income benefit, per se. The small impact of the AFDC-UP program shows up in the minuscule portions of such families receiving AFDC.

This review of the U.S. transfer system should make it clear that minor reforms in the existing system can have at most only a small impact on labor force participation and earnings of the disadvantaged as a whole, for the reason that most males and husband-wife families are ineligible for significant benefits. Only the Food Stamp program provides such benefits to husband-wife families and single individuals, but the program is not important enough in the incomes of those recipients to provide much leverage in increasing labor force attachment. Thus, programs for changing the benefit structure of the existing system cannot be expected to have any significant impact.

In addition to this conclusion, some policies for improving work incentives in the existing system would have little effect on female heads, their primary eligibility group. Two of the long-standing reforms of the transfer system designed to encourage work--lowering the

Table 6

Benefit Receipt by Family Type, 1984
(percentage distribution)

	Nonelderly Single-Parent Families	Nonelderly Two-Parent Families
No program	44.5	81.8
Food Stamps only	3.6	1.9
Medicaid only	1.1	0.9
AFDC, Medicaid only	2.3	0.6
Food Stamps, Medicaid only	0.5	0.3
AFDC, Medicaid, Food Stamps only	15.4	1.2
AFDC, Medicaid, Food Stamps, and other benefit	11.0	0.5
AFDC, Medicaid, and other benefit (not Food Stamps)	1.0	0.3
Cash transfers only[a]	9.7	7.6
Housing assistance only	3.3	0.9
Other	7.6	4.0
Total	100.0	100.0

Source: Weinberg (1986, Tables 3 and 4) and unpublished data provided by D. Weinberg.

[a]Includes unemployment insurance, general assistance, and other cash programs.

benefit-reduction rate on earnings in general and extending benefits to the working poor--have been shown by research in the area to have little if any impact on earnings and labor force attachment of the low-income welfare-eligible population, if not a deleterious effect (Levy, 1979; Moffitt, 1986). Lowering the benefit-reduction rate--that is, not reducing welfare benefits as much when the recipient earns more money in the labor market--does indeed encourage work effort among those initially on the welfare rolls. Unfortunately, it also raises the income eligibility level for the program because recipients with moderately high levels of earnings can now continue to receive benefits. But this makes families who already had such levels of earnings newly eligible for the program and hence provides work disincentives to that new group. Likewise, providing benefits to the working poor gives the existing non-working poor an incentive to work, but it also provides benefits to some families who had not been recipients at all before, providing them with a new work disincentive. The conclusion to be drawn from this research is that such reforms will not only have no effect on the labor market position of low-income men in the U.S., they probably will have no effect on that of female heads as well.

One solution to removing the focus of the existing welfare system on female heads would be to extend benefits to husband-wife families. As mentioned above, such benefits are already provided under the AFDC-UP program in half the states, and the other half will be required under the 1988 Family Support Act to provide such a program for at least six months out of the year in the future. As noted previously, however, the eligibility requirements in the existing AFDC-UP program would have to

be relaxed to make it generally available to low-income husband-wife families. An additional effect of such an extension that is potentially much more important is that which would arise from a higher marriage rate in the low-income population. The current research evidence on the effects of AFDC on marital status indicates that the program does indeed delay rates of first marriage and remarriage and increase rates of divorce and separation (Danziger et al., 1984; Ellwood and Bane, 1985; Hoffman and Duncan, 1988). While the magnitudes of the effects estimated thus far are not large, their force is nevertheless to decrease the labor force attachment of low-income men--a sizable body of research evidence indicates that married men have higher levels of attachment and higher earnings levels than unmarried men (Killingsworth, 1984). Thus, by extending the AFDC program to husband-wife families, it may be expected that male earnings will increase.

B. Child Support Reform

Another important area of activity in public policy toward low-income families that could have an effect on labor force attachment and earnings is child support reform. Recent activity in this area has been motivated by at least two factors. First, child support is awarded to only 58 percent of all women with children who are potentially eligible for support, and to only 40 percent of poor women (U.S. House of Representatives, 1986, p. 416). Of those with awards, many women do not receive the full amount due--about 50 percent receive less than the amount due and 24 percent receive nothing at all. Only 50 percent receive the full amount of the award. Second, the AFDC program is in

part a substitute for child support payments, to the extent that the children on AFDC have fathers who are alive and who have sufficient earnings to support their children but who are not doing so. Consequently, child support reform could reduce the AFDC caseload.

For present purposes, the question is whether child support reform, viewed as a type of welfare reform, would have any effect on encouraging work effort and earnings. Implicitly, the question is also whether the existing child support system discourages work effort and earnings relative to one with stronger enforcement requirements and greater award amounts. The theoretical effects of increased child support on work effort and earnings are different for the absent fathers and for the female custodial parents. For female heads, for example, the effects are ambiguous in direction. Increased support would offer women a higher income if they were off AFDC--and, in addition, a form of income that would not fall as they worked more (i.e., it would not necessarily be "taxed")--and hence would encourage departure from the AFDC rolls and an increase in work effort and earnings. But the greater income available to women would also have a disincentive effect by lessening their need to rely on their own earnings for income.

The effects of increased awards on the work effort and earnings of men is even more ambiguous. The simplest prediction would be that absent fathers would work more if they were required to support their children to a greater degree, for this would presumably move them closer to the contribution that they would have made were they married to the mothers of their children. As noted previously, married men have higher earnings and work effort than unmarried men. Essentially, child support

reform reintegrates the incomes of the two parents and moves their joint incomes closer to what they would be if they were married (though they must inevitably be less in total because the advantages of division of labor within the unit are lost). Set against this simple inference are the possibilities that lower marital formations would result, for the implicit economic advantage of marriage would be lessened (at least from the point of view of the male), and that the increased child support would be assessed on actual male income rather than potential male income, in which case it would have disincentive effects on male work effort. Some of these issues have been addressed indirectly by Weiss and Willis (1985).

The research that has been performed on this topic to date has been mostly concerned with female heads alone. Graham and Beller (forthcoming) estimate that an increase in child support payments would have essentially zero effects on the work effort and earnings of female heads, for the two opposing effects noted above cancel out. Garfinkel, Robins, and Wong (1988) estimate that a combined program of increased award amounts, increased enforcement of awards, and a child support guarantee currently being tested in Wisconsin would increase the labor supply of female heads only by about two-to-three percent. Thus, while the equity aspects of such reform may be desirable, their effects on the labor force behavior of female heads appear to be quite small.

C. Work and Training Programs

One of the major avenues for increasing the human capital and labor force attachment of the disadvantaged is through work and training

programs. Some of these programs have been directed at welfare recipients and there has been a considerable amount of activity at both the federal and local area in this regard. For the general low-income population, the major training program serving the disadvantaged is, at present, the Job Training Partnership Act (JTPA).

Most of the research on training programs has concerned whether such programs have any significant impact on the future earnings of those trained. There have been a large number of evaluation studies of different programs for the disadvantaged, and the results of these studies have been reviewed by Bassi and Ashenfelter (1986), Barnow (1987) for the Comprehensive Employment and Training Act (CETA) program, and Moffitt (1988) for welfare training programs.

Historically, most evaluations have been concerned with the early Manpower Development and Training Act (MDTA) training program from the 1960s, the Job Corps, and the CETA program. The MDTA began in 1962 has a program for the "structurally" unemployed, by which it was meant those unemployed individuals who had been made redundant by structural shifts in the types of jobs demanded in the economy. However, the focus eventually shifted to the disadvantaged, and provided primarily classroom training and on-the-job training. The results of the evaluations of the MDTA (e.g., Ashenfelter (1978)) showed generally positive earnings effects in the range of $200 to $550 per year, with larger effects for women than for men. However, it was also found that the earnings impacts may decay fairly rapidly, casting some doubt on the permanence of the earnings increase.

The Job Corps, a War on Poverty program that is today included as part of JTPA, provides education and vocational training in a residential environment to youth from disadvantaged backgrounds. The Job Corps is one of the more expensive training programs in operation because of its residential character. However, its earnings payoffs have been estimated to be sufficiently high to generate benefit-cost ratios considerably in excess of one.

There have been numerous evaluations of the CETA program. CETA (1973-1982) provided a variety of services, including classroom training, on-the-job training, work experience, and public service employment to eligible disadvantaged individuals. Although disadvantaged status was generally based upon low income and/or a history of low employment, AFDC recipients were also included and constituted approximately 18 percent of CETA participants. A major review of the CETA research recently completed (Barnow, 1987) indicated that CETA increased the earnings of its participants by approximately $200 to $600 per year (late 1970s dollars). The impacts were much greater for women than for men and, indeed, some of the studies found no effects for men at all. The studies also found that the on-the-job training and public service employment options had bigger effects on earnings than either classroom training or work experience.

As emphasized in Barnow in his review, these estimates of earnings payoffs should be treated with some caution. Most of the studies did not follow trainees for more than two years past the time of training and thus the payoffs could have later decayed. In addition, Barnow found that the estimates appear to be quite sensitive to the comparison

group methodology and econometric technique employed, a common difficulty in non-experimental evaluations. The estimates reviewed by Barnow are also only those voluntary participants, who are likely to be a self-selected (i.e., "creamed") portion of the eligible population. If so, extending such programs to a wider set of the population would presumably lower the average earnings impact.

The major training program for the disadvantaged since 1982 is the JTPA program. JTPA serves disadvantaged youth and adults, defined as individuals whose total family income over the six months prior to application is less than the maximum of the poverty line (for the given family size) and 70 percent of the BLS lower living standard. Unlike CETA, JTPA provides no funds for public service employment. Instead, JTPA provides support for institutional and on-the-job training, job search assistance, counseling, and other work-related assistance. JTPA is also much more decentralized than was CETA, allowing considerable latitude and discretion to local training agencies in determining the services offered and the types of participants enrolled. It should also be noted that total expenditures in the JTPA program are much below those that were authorized for the CETA program during its existence.

Although there have been no major impact evaluations of JTPA, there has been considerable discussion of whether it "creams" from the eligible population. "Creaming" is said to occur when the most-employable, "best-off" individuals are disproportionately enrolled in the program to the detriment of the least-employable, "worst-off" individuals. Such a practice would run against the desire to help those individuals "who are most in need," as the legislation requires. To

some extent, creaming is thought to be a natural response to performance standards that judge the success of local JTPA agencies on the basis of criteria such as gross placement rates that are naturally higher, the more employable the participants in the program.

A related issue is the extent to which existing JTPA resources are concentrated on those most in need. Sandell and Rupp (1988) point out that, despite the general eligibility criterion of disadvantaged status, almost 30 percent of the JTPA caseload is constituted by AFDC recipients. Moreover, among school dropouts eligible for JTPA, only 1.7 percent actually receive services. Sandell and Rupp show that the major determinant of receipt of JTPA services is whether or not the individual has been unemployed over the last six months. Unemployment per se is not an optimal criterion for targeting on the disadvantaged since many unemployed are not necessarily in need of long-term assistance.

There have been many evaluations of work and training programs for AFDC recipients, far too many to evaluate in detail here (see Moffitt (1988)). Historically, the major training program for AFDC recipients was the WIN program, which was estimated to have positive impacts on recipient earnings of up to $1200 per year, a large amount (Grossman et al., 1985). However, the comparison group used for the evaluation was drawn from waiting lists for WIN, a group unlikely to be an adequate control.

The more recent evaluations have been based upon various types of "workfare," work requirement, or training programs for welfare recipients. The policy movement in this direction has gathered strength in the past few years and has resulted in the inclusion of a type of

work requirement in 1988 welfare reform legislation. The programs that have been implemented and tested thus far do not require work, per se, but instead require some form of job training, job search, education, or "work experience," where the latter often means work in subsidized employment or in some type of sheltered environment outside of the regular labor market. Such programs are designed to increase the individual stock of human capital and to raise future earnings.

The most relevant programs in the current debate over training and work programs stem from 1981 and 1984 federal legislation allowing states to operate strengthened work-related programs (called WIN "demos"). States are now allowed to require increased job search of recipients, to operate community work-experience programs requiring recipients to work at community jobs ("workfare"), and to operate grant diversion programs that use the AFDC benefit to subsidize private-sector or public-sector employment. By January 1984, 42 states were operating one of these types of programs, reflecting what was a strong response to the legislation (Congressional Budget Office, 1987). The types of programs implemented by the states are very diverse and difficult to summarize, and to date there is little information on the distribution of different types. However, it does appear that almost all states have offered some form of job-search assistance (which comes under the WIN demos) and that very few of the states have large enrollments in workfare programs (Congressional Budget Office, 1987, p. 25).

A major evaluation of the programs in five of the states has been conducted by the Manpower Demonstration Research Corporation (MDRC) (Gueron, 1987). In four of the sites, which provided primarily job

search and work experience but also occasionally education and training or workfare, earnings impacts ranged from $120 to $550 per year. In a fifth site where the strongest emphasis on workfare was placed and the least on training, there were no significant earnings or employment impacts. This is consistent with the relative lack of emphasis of workfare programs on human capital formation.

The major conclusion to be drawn from this review of existing training programs for the disadvantaged is, once again, that they are overwhelmingly directed toward the population of disadvantaged women and female household heads. The majority of services are directly toward recipients of AFDC, who are predominantly female heads. Even the JTPA program, which is the major program for men, serves AFDC recipients to a high degree and serve very few of the eligible school dropouts in the U.S. population. The only other components of the transfer system in which at least some males are enrolled are the AFDC-UP program and the Food Stamp program. Training programs in AFDC-UP are similar to those in the AFDC program, and therefore a strengthening of AFDC-related training programs would redound to the benefit of those men enrolled in AFDC-UP. The Food Stamp program also requires work and training programs, and a strengthening of these would also assist some males.

D. Wage-Rate and Earnings Subsidies

Another method of stimulating employment and earnings among low-skilled and disadvantaged workers is through wage-rate and earnings subsidies. Such subsidies can take a wide variety of forms, ranging from subsidies to employers who hire disadvantaged workers to tax breaks

provided directly to low-income earners such as that provided by the Earned Income Tax Credit (EITC). Employer subsidies can also take a variety of forms, some based directly on hourly wages and some on earnings, and some on hiring, per se. Most of the major issues are discussed in Palmer (1978) and Haveman and Palmer (1982). Part of the appeal of such subsidies is that they provide a direct means of stimulating employment among the low-skilled which seems to be without the labor supply disincentives usually associated with transfer programs. An increase in the after-tax wage rate such as that provided by the EITC gives the worker a clear incentive to work more and a wage rate subsidy to an employer clearly gives the employer a greater incentive to hire the worker.

Unfortunately, however, there are two types of disincentives in such programs. First, an earnings subsidy must be phased out at some level of earnings if it is to be provided only to the disadvantaged. Therefore, there must always be some range of earnings over which the subsidy amount decreases with higher earnings rather than vice-versa. While this range may be sufficiently high to make its impact fall only on a group that is not ordinarily considered to be disadvantaged, it nevertheless provides a disincentive to higher earnings in that group. Thus, for example, the 1989 EITC subsidizes earnings at a 14 percent rate for those families with income up to $6500, but decreases the subsidy at a 10 percent rate for families with income from $10,000 to $19,000.

Second, even if incentives to employment, hours of work, and other measures of labor supply are not affected, incentives for human capital

formation will be affected for the same reason. The phase-out of a subsidy to hourly wage rates, for example, must once again result in some range of hourly wages over which the subsidy declines. In this range the rate of return to investment in human capital is lower than it is in the absence of the program. Once again, the group so affected may not be disadvantaged but any disincentives they act upon will reduce the aggregate level of human capital in the economy.

Aside from these problems of incentives to the individual, targeted wage and earnings subsidies have the additional difficulty of generating possible substitutions of subsidized employment for unsubsidized employment. A targeted subsidy gives the employer an incentive to alter the mix of his workforce by increasing employment among the targeted group and decreasing it among the nontargeted group. A related problem that arises with such programs is that a large portion of the cost is absorbed by windfalls given to employers who would have hired workers in the target group in any case, and even in the absence of the tax credit.

Similar sorts of problems arise when employment is directly subsidized in the state and local sector, as it was in some portions of the CETA program (public-sector employment components). In this case, there is a serious possibility that state and local governments use the subsidized employment to reduce employment in other parts of the government or even to lower taxes or increase expenditures on services. While some of these practices can be monitored, most ultimately cannot be.

Much of the research that has been conducted on these types of programs to date has focused on their practical problems, at least those

associated with administering such a program through the employer. A true wage-rate subsidy, for example, requires the employer to define an hourly wage rate for all workers even though many workers are not paid by the hour and others are paid partly by the hour but receive fringe benefits in some other form as well. A more general problem is that employees and employers have an incentive to collude in any of these types of programs because they can artificially inflate the wage rate or earnings level of the job to increase the government subsidy. Another practical problem with targeting the disadvantaged is the difficulty in requiring employer verification of disadvantaged status. Employers generally are put off by excess amounts of paperwork and may find it to be heavy if past employment, household income, or other characteristics of the worker's background must be verified. One solution to this problem is to have individuals certified by an agency of the government first.

The experience with wage rate and earnings subsidies in the U.S. is limited. Undoubtedly, the program with the largest impact is the EITC, the subsidies of which are received by millions of U.S. workers and their families. The EITC was created in 1975 and is a refundable tax credit (earnings subsidy). However, the EITC is available only to families with children. Thus, among males, only men who are married and who have children will receive its benefits. Thus, large numbers of disadvantaged males--unmarried men (e.g., youth) and married but childless men--do not receive the subsidy. Additional problems with the EITC are (1) its lack of target efficiency on the poor because families with high amounts of unearned income are eligible, (2) its lack of

target efficiency arising because families with high-wage-rate workers but low hours of work may be eligible, and (3) its annual accounting period, which makes short-term relief difficult and hinders the perception of the subsidy by the individual worker. In addition, the EITC has been plagued throughout its history by a small take-up rate, especially among those who could file returns and obtain a refund but do not do so because they typically do not pay taxes and hence typically do not file returns. There are currently bills before Congress to increase the levels of generosity of the subsidy in the schedule.

The major employer-based intervention that has been attempted in the U.S. is the Targeted Jobs Tax Credit (TJTC). The TJTC was enacted in 1978 and provides a tax credit for employers who hire members of certain groups, including economically disadvantaged youth (i.e., youth from low-income families), AFDC mothers, and the disabled. Its eligibility provisions have been changed in various ways over its lifetime and it is currently scheduled to be phased out for employees hired after 1989. The TJTC provides to employers an effective subsidy rate for the first-year wages of eligible workers of approximately 30 percent, a sizable amount. Over half a million workers have been certified under the program (U.S. House of Representatives, 1986, p. 619), mostly disadvantaged youth (59 percent of the total) and AFDC mothers (16 percent).

Altogether, about 570,000 workers received TJTC subsidies in 1987. However, the net effect of the TJTC on employment is certainly less than this because many of the certifications would have been hires in the absence of the TJTC. In addition, evaluations of the TJTC generally

have shown its major problem to be a low take-up rate by employers, for most eligible workers are working for firms that do not apply for the credit (Bassi and Ashenfelter, 1986). Some supportive evidence of this finding was reported by Burtless (1985) who analyzed a wage voucher experiment in Dayton, Ohio, and found that only 24 percent of employers bothered to apply for the credit. Further, Burtless found that individuals without the voucher found new jobs just as fast as individuals with the voucher.

E. Child Care

Public and governmental interest in child care has increased enormously over the last few years. As labor force participation rates of women have increased and as female earnings have risen, the demand for child care quantity and quality has also risen. The child-care industry has responded rapidly to the increased demand although there have been some lags in the supply responsiveness. Firms have also increased their supply of day-care facilities for employees. The federal government as well as state and local governments have become heavily involved in the subsidization of child care in various forms, leading directly to the need for a decision on the best method of subsidization.

For present purposes it is necessary to make a distinction between possible failures in the market for child care which affect all members of the labor force by resulting in general underprovision of child care, and the need on equity grounds to provide additional child care for low-income families. Since the focus of this review is on methods to

increase the labor force attachment and earnings of the disadvantaged, only the second of these issues is of relevance here. Consequently, even if there is no case to be made that governmental intervention in the child-care market is appropriate, it may still be desirable to subsidize the care of low-income families if it is desired to increase the well-being of families in that fashion rather than in some other (e.g., through direct cash payments).

This having been said, it remains to be determined whether subsidies to the poor in the form of child care, which represent a form of in-kind subsidy, would increase the consumption of child care by the full subsidized amount. As with all in-kind subsidies, families that are already spending a certain amount of time or money on child care may reduce their own contributions of time and money after receiving public subsidies. The degree to which substitution would take place is at present unknown.

A related issue of some importance in the discussion of child-care subsidies for low-income families is the degree to which such families presently use informal rather than formal care, and the extent to which it is desirable to subsidize the latter at the expense of the former. Among working married women with children under five years of age, only one-fifth use formal organized day-care facilities; the rest use care in the home or another home by a relative or nonrelative. The latter is often unpaid care. Therefore, as a practical matter, since governmental subsidies are easiest to provide in formal rather than informal settings, it should be expected that governmental subsidies will alter the allocation of child-care production toward formal care.

The theoretical prediction of the effect of child care on work effort and earnings is clearly positive, at least on the work effort of the primary care-giver, usually the wife in a married couple. Child-care expense consists of fixed costs and variable costs (the latter increase with hours of work, while the former do not), and a reduction in either will increase the return to working rather than not working. If a child-care subsidy decreases variable costs, it is possible that income effects may reduce work effort and hence outweigh substitution effects, but this seems empirically unlikely.

In any case, whether the work effort of the husband in a married couple would change after a reduction in child-care costs is not clear and depends upon the relation between the work efforts of the partners. In the conventional theory of joint allocation of leisure between husbands and wives, their non-work times are usually regarded to be substitutes and, hence, it would be expected that husband's work effort would fall (ceteris paribus). However, existing estimates of the relevant cross-price elasticities are quite small, and it could be reasonably expected that, as a first approximation, there would be little effect on the labor supply of husbands. Thus, it can be seen that, once again, public policy in this area is more focused on the labor force problems of women than those of men. The same is true for child-care efforts connected to the welfare system. The workfare and training programs discussed earlier almost always provide for heavy child-care provision and subsidy for welfare recipients enrolled in such programs, for participation in training could not be reasonably expected if no child care were provided. Any positive effects on work effort in

this case would, because of the eligibility conditions for AFDC, fall on female heads of family.

The best study to date on the effects of child care on female labor force attachment was conducted by Blau and Robins (1988), who used data from the Employment Opportunity Pilot Project to estimate the effects of child-care costs on the probability that a woman works. Unfortunately, Blau and Robins did not have good information on child-care costs, a common difficulty with empirical work in this area. They used two measures, one a measure of the hourly wage of child-care workers in the area taken from the most recent decennial Census, and one the average per-child expenditure of the families in their sample in each area. Their results showed that, as expected, child-care costs are inversely related to employment probabilities after controlling for other factors affecting employment. Their results imply that a 10 percent decrease in weekly child-care costs should be expected to increase the employment rate of married women by approximately three-to-four percentage points. This is a nontrivial elasticity and would, if effected, represent a large increase in the employment rate of women in the U.S.

IV. POLICY RECOMMENDATIONS

Over the last few years there has been a resurgence of concern with the problems of the economically disadvantaged in the U.S. An increase in the poverty rate starting in the late 1970s and continuing into the 1980s has arisen not from a decline in transfer payments or from a decline in other sources of unearned income but instead from decreases

in real earnings in the labor market among the least-skilled groups in the society. Also, wage inequality in the labor force has increased among men partly because of growth in the relative number of low earners. Rates of labor force participation of young, less educated men have fallen over the 1970s and 1980s for both black and white men, but much more so for the former. Indeed, among black men with less than a high school education, the fraction not working has risen from approximately 20 percent in 1940, to 26 percent in 1960, to an enormous 50 percent in 1980. Even young black men with a high school diploma have experienced increased inability to find work, which has grown through the 1970s to 28 percent by 1980. Some deterioration has even occurred for those in the young black male population with a college degree.

The current set of public policies for the disadvantaged is much more focused on the problems of women than those of men. The U.S. transfer system, for example, is aimed almost exclusively at disadvantaged and poor women; low-income men receive little attention. In addition, the recent emphasis on work and training programs for welfare recipients, such as that embodied in the Family Support Act of 1988, is aimed at female heads of family, the primary recipient group in the current U.S. welfare system. The reform of the child support system in the U.S. is aimed first and foremost at the problems of women, especially low-income women. The subsidization of child care, under heavy public discussion at the moment, is likewise aimed primarily at relieving the labor force difficulties of low-income women.

The only major exceptions to this generalization are the Earned Income Tax Credit (EITC) and the Job Training Partnership Act (JTPA), both of whom have males as a major target group. Nevertheless, neither provides comprehensive support to disadvantaged men. The EITC is provided only to married men with children, thereby bypassing a large number of disadvantaged males. Moreover, research on the EITC and similar earnings subsidies suggests that their work incentives may be considerably weaker than previously thought. In the JTPA program, a greater fraction of support is provided to women than to men. In addition, it has been argued by some analysts that JTPA inordinately "creams" from the eligible population by selecting only those who are most employable to begin with. Thus, it may be the JTPA is not serving the most disadvantaged males in the U.S. population. This is particularly important because it is now thought that manpower training programs such as JTPA do have positive effects on earnings, even though of modest magnitude.

Two means-tested transfer programs that do provide benefits to low-income males are the Aid to Families with Dependent Children and Unemployed Parent (AFDC-UP) program, which provides cash benefits to poor husband-wife couples, and the Food Stamp program, which provides food coupons to poor families and individuals. However, the AFDC-UP program has been federally mandated only as of 1990; in the past, only about one-half of the states have provided such benefits. Moreover, in neither the AFDC-UP nor the Food Stamp programs have training programs for recipients been systematically targeted on disadvantaged males.

Policy Recommendations:

* Place more emphasis on assistance to disadvantaged men in the U.S. population.
* Expand and strength job training programs for males and focus additional JTPA resources on the most disadvantaged males.
* Strengthen the training opportunities in the AFDC-UP program, which will be mandated in all states by 1990 under the provisions of the Family Support Act of 1988.
* Strengthen the training opportunities for men receiving benefits in the Food Stamp program, the only universal transfer program in the U.S.

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